Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

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REITS AND REALITY: IS THE REAL ESTATE RECOVERY BUILT ON ROTTEN UNDERPINNINGS?

"REITS AND REALITY," your editor's speech of last December which was distributed to subscribers requesting copies, has brought some provocative comments from subscribers. The speech, reprinted in several periodicals, argued that lenders looking for an inflation bailout from their real estate problems should look instead to a "perspiration" bailout from individual real estate entrepreneurs. Two comments are especially noteworthy for subscribers; both come from highly placed knowledgable real estate men, one a former senior officer of a major life insurance company now operating as a consultant, and the other the principal workout officer for a major REIT. Their common and chilling message: the much ballyhooed "real estate recovery" may not be as sound as many investors think. Some excerpts:

"As an ex-life insurance company vice president..., my observation would be that the life companies are showing substantially more willingness to face up to their problems than the banks are. Whether the banks really think they are going to get bailed out by inflation, whether they are trying to time the taking of losses they recognize as inevitable, or whether they just simply do not know yet what their problems are, I cannot guess.

"I have been trying for 15 months to get a multi-lender group in which most are major banks to take some sort of action to get completed a major unfinished apartment project and so far have had no results. Currently the bankers' solution to the problem is, 'Well, let's sell our $20 million position and the unfinished building to anybody who will pay us $10 million cash for it.' There is as much chance that somebody will step up with $10 million cash for this as there is that I will be the next man on the moon."

The second letter from a major REIT workout executive: "Oh, you're right on. What's so ironic is that many of the banks and trusts do not realize that this real estate is merely going through a laundering process by taking it away from the 'bad guys' and trying to put it in the hands of the 'good guys.' So far, from what I have

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seen...the good guys are not getting the real estate. The effect of all this is that the banks and the REITs doing workouts are re-making the same foolish mistakes with inexperienced developers and workout artists, based on unrealistic projections. It's unbelievable, but many of the workout deals are nothing more than a repeat of the loan that was made two or three years ago. The second wave of foreclosures on workouts will destroy any chance this real estate had of surviving.

"I have shown your article to many of the lenders, but they just don't understand. Keep plugging."

We pass these letters on (without names for obvious reasons) because they come from men of wide experience and achievement. They serve to underscore the point of our Jan. 12 advisory: don't chase shares of very sick mortgage trusts because share prices now reflect expectations of miracle recoveries -- and the nature of the underlying real estate may create a false sense of well-being and recovery.

REIT BONDS AND SHARES: A LOOK AT 9 SPECULATIVE REITS

January's explosive rally has moved market quotations of many REIT bonds well above the depressed quotations we noted last Oct. 24 and Nov. 14. The major gains have come in bonds of the most severely depressed and speculative trusts, however. We continue to think there are some attractive bond vehicles around, however, and believe that the decisive change in consumer attitude that seems to have taken place during the Christmas season bodes well for bond speculators and investors.

But the elements making good bond investments or speculations may or may not apply to the underlying shares of the same trusts. Some subscribers are longer-term holders of shares of many hard-hit short-term construction lending REITs and are asking a parallel question: is there enough value left in the shares to justify averaging down. "Averaging down" is the process of buying equal numbers of shares at both high and low prices in expectation that share prices will later return to the average price. For example, a subscriber cited purchases of LMI Investors at prices averaging $28½, which he had then balanced with an equal number of shares at 7/8, reducing his cost basis to slightly below $15.

Finally, there's the possibility that these same longer-term shareholders may wish to switch from shares to bonds of the same or equal quality REIT, thereby gaining some current income while hopefully locking in some potential capital gains by buying discount bonds. All these are possibilities. Before considering them, three unique characteristics of REIT bonds should be noted:

1. Variable interest coverages make all REIT bonds speculative. Because a profitable REIT cannot retain earnings, coverage of interest payments in one quarter from earnings may not mean that interest will be covered in later quarters. (In contrast, an industrial company may retain earnings as a cushion against possible earnings declines in future periods.)

2. Portfolio liquidation will be required to repay nearly all REIT bonds outstanding now. With one or two possible exceptions, no REIT today could sell new shares or bonds to repay maturing debt, nor are possibilities bright for borrowing additional funds from banks for such repayment. Thus repayment of most outstanding bonds will require portfolio liquidation--i.e., a cessation of growth even for sound trusts. (In contrast, industrial companies can retain earnings to repay maturing debt without slowing growth.) In the case of bonds maturing by 1980, this may require more rapid portfolio liquidation than the real estate market will permit.

3. Bonds of deeply troubled REITs require special cooperation from banks just for interest payments. We've said it before but it bears repeating: commercial banks are keeping many REIT issuers of bonds alive and the bond purchaser must look carefully

PROFILE OF REIT BONDS & UNDERLYING SHARES

	---Bond---		--------Shares------		
Medium risk	Price	Yld.	Price	Book	Pr./Bk.
BT Mtg. Inv. 5-3/4s'82...	$41.25	14%	$3.38	$1.36	+148%
Gulf Mtg.7.7s'80.....	53.00	14	2.75	10.79	- 75
Inst. Inv.7-7/8s'80.....	58.00	13	1.75	10.39	- 83
Midland Mtg. 8s'80.....	53.00	15	2.00	6.69	- 70
Saul REIT 8½s'80.....	77.00	12	4.13	9.39	- 56
High risk					
Alison Mtg. 8-3/4s'79....	34.00	25	0.63	4.00	- 85
Citizens Mtg.8½s'80.....	25.00	34	0.75	Neg.	Neg.
Colwell Mtg. 8.2s'80.....	50.00	16	2.38	6.07	- 61
Cont. Ill. R1.7-5/8s'79..	67.88	11	2.50	8.10	- 69
Cousins Mtg. 6½s'82.....	40.25	16	2.13	4.83	- 56
LMI Invest.6-3/4s'82.....	29.00	23	1.50	E2.91	- 48
Tri-South Mtg. 7-3/4s'80.	32.00	24	1.50	4.58	- 67
Extreme risk					
Chase ManTr. 7-7/8s'78..	71.00	11	3.88	-11.50	Neg.
Cit.&So. Rlty.6-3/4s'78.	38.00	17	3.00	12.96b	NC
Barnett Mtg. 6-3/4s'91..	20.00a	34	0.25	-1.28	Neg.
Grt.Amer.M&I 7.55s'79...	18.00a	42	0.25	-12.83	Neg.
Guardian Mtg.7½s'79.....	38.50	19	1.88	E-3.69	Neg.
Justice Mtg. 7-3/4s'79..	25.00	31	2.63	15.02b	NC
State Mut.Inv. 9s'80....	54.00	16	1.75	4.03	- 57

a-Priced Jan. 27. b-Large loss provision believed made in Sept.'75 FY but not public; price/book not calculated.

Last Nov. 14 we listed 19 straight REIT bonds grouped by risk as we saw it. None have current earnings or dividends, nor expect any earnings in the near future, and all are ranked No. 5 in our RELATIVE APPEAL RANKINGS. In assessing these issues we are in effect trying to develop gradations of value for <u>speculative</u> investing in the shares and bonds. It's interesting to note that the most speculative bonds have soared the highest since last fall, and in fact some highly speculative bonds now yield less than better quality bonds. In assessing these trusts, we are looking at three other factors: a) <u>Loss reserve adequacy</u>. Nearly all have taken their "hit" by applying the AICPA rule requiring them to estimate holding cost of acquired and troubled properties in determining their loss reserves. Remember that trusts with low-rate bank loans get a benefit from the lower rate in the computation. Unlike some other advisers, we do not think it prudent to make decisions based on combining loss reserve with book value to arrive at a theoretical recovery point. This approach is useful to banks looking at cushion on their loans but does not serve investors because if REIT managements and their auditors have done a halfway decent job, the loss reserve will be exhausted over time. Recovery potentials are best measured from book value as stated (Audit uses net tangible worth after subtracting unamortized debt discount and costs).

b) <u>Aggressiveness in foreclosure</u>. Unlike many analysts, we believe a trust's success in acquiring control of troubled property (assuming the management has decided not to work out with the original developer) and turning it around is to be favored. Trusts with high proportions of assets in participations with other lenders (which may inhibit solutions) or with protracted litigation generally will take much longer to recover than those not so afflicted. Even after acquisition, both property and management skills must be evaluated for prospective turnaround time.

c) <u>Debt structure</u>. Disagreement among conflicting groups of lenders have accounted for the two bankruptcy petitions among REITs in this real estate cycle. Thus while the primary bank line may offer no trouble, conflicts between other classes of creditors, especially public debtholders, may indicate problems soluable only through bankruptcy court.

at the total capital structure and the REIT's relations with its banks to be reasonably sure that interest payments will be made. This point combined with No. 2 above means that some bonds may be good speculative vehicles for current income even <u>if</u> the holder has enough reservations about repayment that he intends to sell before maturity. This is a tougher trading game than many investors are used to in regular corporate bonds.

ALISON MORTGAGE INVESTMENT TRUST (About 5/8--NYSE Susp.) FY Oct. 31

Portfolio: After adding nearly $28 million to the loss reserve in the July 1975 quarter, the loss provision stood at $34 million and book value was marked down to $4/sh. This loss provision equalled 14% of the total portfolio and 23% of the non-earning segment. Only $28 million, 19% of troubled assets, is owned by the trust. Financing: The trust faces liquidity difficulties in the absence of a new credit agreement, negotiations for which have gone on for a year. The New York Stock Exchange suspended the trust's shares and debentures pending a financial agreement. The likelihood is an agreement will be reached if for no better reason than the banks may find alternatives less attractive. The situation may have been complicated by the trust going self administered thereby giving up sponsorship of its medium sized mortgage banker. The trust is now managed by its own staff of 37 which it expects to increase. The situation will remain tenuous pending signing of a new bank agreement.

Bonds: The junior debt will remain speculatively viable only if banks go along.

Shares: The shares are too speculative for consideration at this time. (BS)

BT MORTGAGE INVESTORS (3 3/8--NYSE-BTM) FY Sept. 30

Portfolio: Absorption of higher loss reserve provisions for fiscal 1975 sliced net tangible book value to $1.36/share. The $22 million accumulated loss reserve is 12½% of the $174 million portfolio and 22½% of non-earning investments. Non-earning loans and foreclosed properties totaling $97 million are 56% of investments. Management has completed foreclosure on $34.6 million of property, which operated at a net cash loss of $0.52/sh. last year. Another $36 million is in foreclosure process. Management has been fairly aggressive in disposing of foreclosed property, selling four such properties for a $370,000 deferred gain and providing $8½ million of financing to buyers. Fundings rose 6% last year because of prior commitments; unfunded commitments are now down to $10.8 million. Net investment income (all revenues less interest expense) was $1½ million negative in fiscal 1975. As a result, BTM lost $10.60/sh. in fiscal 1975 after $8.87/sh. provision for losses.

Sponsor & financing: Bankers Trust New York Corp., one of the 10 largest U.S. bank holding companies, has given good support by providing $75 million (or 55%) of $136 million short-term and installment financing, plus aid to trust borrowers of about $10 million secondary financing and $8 million takeout financing. The trust is seeking reduced rate loans from its line banks.

Bonds: Strong support from a major bank not included on any of the currently revealed "problem" bank lists indicates interest payments should be met on the 5-3/4% subordinated debentures. With $136 million short-term debt ahead of the $19.4 million principal, full repayment at 1980 maturity implies near-complete liquidation unless loss reserves are overstated.

Shares: At over double book value, shares are poor candidates for averaging or new purchases. (KDC)

CITIZENS MORTGAGE INVESTMENT TRUST (About 3/4--NYSE Susp.) FY Dec. 31

Portfolio: After adding $3.4 million to the loss reserve in the nine months to Sept. 30, including $1.5 million to cover carrying costs, the trust's nine month deficit came to $6.7 million. This brought book value down to $2.8 million, $1.95/share. Year-end additions to the loss reserves dropped book value into negative territory. Although equity was well written down, the loss reserve provision at Sept. 30 was only 10% of the problem category, and 7% of the $104 million portfolio. Foreclosure became active in 1975 with $49 million (including $30 million in foreclosure process) which accounts for 63% of the non-earning category. Citizens has been active in financing the land development end of real estate in addition to being big in condos. Thus, 20% of the whole portfolio is non-earning condos and 13% non-earning land loans. These account for 45% of non-earnings before including owned projects of this type.

Financing: A financing agreement was completed in late 1975 which resulted in a term loan with its banks maturing June 30, 1976. Interest was reduced to 2%. The

$75 million loan was down from $98 million because $18 million was swapped to a line bank. Swaps will continue to be stressed to work down as much of the balance as possible in the next few months. Not only are line banks being cooperative to enable foreclosure sales and swaps but the owner of the sponsor, New York bank holding company Manufacturers Hanover (which bought the mortgage banker adviser in Nov. 1973 well after the trust was formed) is extending staff and credit support. Problem loans are coming along. Condos are being sold with purchase money mortgages. REIT disqualification provides flexibility.

Bonds: Interest looks safe intermediate term but the next few months could prove crucial for ultimate principal. Shares: Not suitable for speculation until workout progresses sufficiently to assure recovery of some written-down equity. (BS)

COLWELL MORTGAGE TRUST (2¼--NYSE-CLM) FY Dec. 31

Portfolio: A $9 million addition to the loss reserve in the Sept. 30 quarter was responsible in good part for the $16.8 million loss in the nine months to that date. Book value was lowered to $6.07/share. The $22.3 million loss provision was boosted to 23% of non-earnings and 12% of the entire $189 million portfolio. Foreclosures by this mortgage banker sponsored trust have been active, reaching $58 million by December, 60% of the $97 million non-earning category. Financing: The revolving credit agreement, under which $126 million was borrowed, was extended past Oct. 31. A new agreement should be completed in month or two. Although unfunded commitments were $19 million, not all are obligatory and liquidity appears to be in hand. The banks want to be repaid as soon as possible but appear willing to grant time and low interest rate. On the workout side, to obtain funds for debt repayment, things are said to be going well. The sponsor, very large independent mortgage banker, retains strong support and makes its large staff available. The trust has a property management department under a VP hired six months ago. Numbers will be available after the December yearend audit.

Bonds: Speculatively speaking, interest and principal look reasonably secure.

Shares: At 63% below book value, there may be recovery potential at a later date. (BS)

CONTINENTAL ILLINOIS REALTY (2½--NYSE-CIR) FY March 31

Portfolio: Continued buildup of the loss reserve in the Sept. 30th quarter together with operating loss lowered book value to $8.10/share. Another $0.10/sh. was lost in the Dec. quarter. The $28 million loss reserve was 18% of $156 million non-earnings but only 13% of the problem category if low earning assets are included The reserve was 10% of the total $289 million portfolio. Foreclosures including those in process are low, only $19 million, or 12% of problems. The trust feels most borrowers are strong developers and would rather work with them than interrupt construction. Fully half the portfolio is in the tough ends of real estate, 31% condos and 19% land development. Also, Florida holds the biggest chunk of investments, 22%. About 16 trust staff members are said to be following the portfolio.

Financing: A $222 million low-interest credit agreement was reached in June 1975 which will carry the trust through this June. This trust retains very good relations with its line banks. This stems in part from affiliation with a major Chicago bank which continues its support and is also one of the creditor banks. Overall liquidity seems satisfactory with $26 million unfunded loans remaining.

Bonds: Interest appears reasonably secure. While the $25 million principal is backed by $23 million remaining equity, principal repayment by 1979 would require a major turnaround in real estate types with the slowest estimated recovery times.

Shares: Although 70% below book value, interest in the shares is premature. (BS)

GULF MORTGAGE & REALTY INV. (2-3/4--NYSE-GMR) FY Feb.28/29

Portfolio: Further additions to the loss reserve in the nine months to Nov. 30 reduced book value to $10.79/share. The loss reserve stood at $15.3 million, equal to nearly 11% of the $142 million portfolio and 20% of non-earning and foreclosed investments listed at $75 million. Another $9 million are low earning, income exceed-

ing cost of capital. The trust has been reasonably aggressive in foreclosing, 52% of its non- and low-earnings having been picked up via this route. Foreclosures are primarily condos and land. Structures are mostly completed and marketing begun.

Financing: The trust just completed a revolving credit agreement with its banks for $91 million. To run to Nov. 1976, interest accrues at the prime rate up to 9%, payable monthly at a mimimum of 4% and quarterly from the trust's net cash income. Contingent interest at 125% of prime would be due under certain conditions for five years. An asset swap program is provided to reduce bank debt. At least the trust has provided for its reduced financing needs (portfolio was cut another $6.4 million in the latest quarter) and has a breathing spell for a year while attempting to improve its return. Net investment income was still negative even before allowing for loss reserve provision. As with so many, the time factor required to restore earning power for a significant portion of non-earnings is the key. With a sizeable portion of such assets either in foreclosure or representing less troubled real estate categories, there would appear to be a fair chance of preserving some equity. Non-qualification as a REIT should facilitate property management and disposition.

Bonds: Interest has a good chance of being paid intermediate and probably long-term; principal repayment looks fairly good in 1980.

Shares: At 75% below book value, there is fair chance of speculative recovery. (BS)

INSTITUTIONAL INVESTORS TRUST (1-3/4--NYSE-INV) FY Jan. 31

Portfolio: The loss reserve provision was boosted a third, $3 million in the Oct. 1975 quarter to allow for carrying costs, bringing it to $12 million. The loss provision is now 6% of the $192 million portfolio, 10% of $118 million non-earning assets. Losses for the nine months through Oct. 31 were $7.7 million after loss provision bringing book value down to $10.39/share. Foreclosure proceedings are active with nearly half the problem category, 48%, either acquired or in foreclosure process. In turn, the problem category is income producing by type with no land. Breakdown was 34% condos, 31% apartments, 16% single family, 10% residential/commercial and 9% other. But 18% was in Florida indicating a fair portion in longer term workout areas, Florida and condos.

Financing: The trust has something of potential financing requirements: $25 million remains to be funded and there are standbys out for $20 million. However, the trust believes it will not have liquidity problems as additional borrowings can be obtained by collateralizing certain real estate investments together with sale of other investments. Negotiations are underway to extend the basic borrowing to Nov. 1976 with two changes: allow deferral of some monthly interest and schedule amortization of $3.5 million secured borrowing. Recent approval to operate as a non-qualified trust should facilitate handling of the growing foreclosed portfolio as to managing or disposing of properties. Profit resumption does not seem likely near term.

Bonds: Interest appears safe for now and relatively low leverage backed by $63 million written-down equity provides protection for $20 million principal due 1980.

Shares: At 82% below book value, there should be ultimate recovery potential. (BS)

LMI INVESTORS (1½--NYSE-LWN) FY June 30

Portfolio: About 77% of the estimated $171 million portfolio of this short-term mortgage trust was non-earning at Dec. 31, up slightly from earlier quarters because completion of foreclosure required the taking of related mortgage debt onto the balance sheet. About $40 million of property has now been foreclosed but another $40 million is in foreclosure process, some in protracted litigation. Management reports that acquired property is starting to turn around and should produce some operating profit before debt service in the next year or so; delays in completing acquisition have retarded this recovery phase. Holdings have a relatively high percentage of participations with other lenders, notably United Realty Trust and Burnac Mortgage Investments Ltd. of Canada. CNA Financial, parent of LMI's adviser, also owns the adviser to Uni-

ted Realty and Burnac's parent. The portfolio is widely diversified by property and loan type and location but some properties have proved slow to reach profitable operations. By property type, holdings are 25% apartments, 12% condos, 16% office buildings, 13% shopping centers, 8% land development, and 11% standing loans on completed buildings.

Sponsor & financing: The trust is advised by a subsidiary of CNA Financial Corp., Chicago insurance holding company. Short-term debt of $105 million is now accruing interest at 6% but the trust is seeking a lower rate; management hopes to complete a new credit agreement soon but this may include contingent interest for some years. A swap program is also possible. Fiscal 1975 losses plus $10.4 million losses through Dec. 31 cut tangible book value to an estimated $2.91/sh. after deduction of debt discount. Market enthusiasm could carry prices over this theoretical value.

Bonds: Highly speculative for income till the pending credit agreement is completed; payment of principal on the 6.75% debentures at 1982 maturity likely will require major portfolio reduction or bank cooperation.

Shares: Averaging down or new purchases are not advised except for venturesome.(KDC)

B.F. SAUL REIT (3-3/4--NYSE-BFS) FY Sept. 30

Portfolio: This older equity and mortgage combination trust has made major efforts to win early foreclosure of problem properties and through Sept. 30 had foreclosed $97.3 million, up $73½ million on the year and now 30% of portfolio. All but $10 million is earmarked for investment holding, however, thus adding $87.3 million (27% of total holdings) to $82 million (or 26%) of equity investments acquired deliberately. Mortgage loans total $132 million, of which $40 million are non-earning. Non-earning loans and acquired property held for resale thus total $51.4 million, or 16% of portfolio, and the loss reserve of $10.1 million equals 3.2% of total holdings and 20% of non-earning investments. Saul has credibility in making this dramatic conversion of acquired property into potential investment holdings because the Washington, D.C. real estate company adviser has a long record of turning foreclosures from previous recessions into sound investments. Moreover Saul stuck to standard urban property, mainly shopping centers and apartments, in its mortgage lending and thus has limited exposure to today's toughest property types, with only 3% of investments in condos and acquired land loans. Last year the trust says foreclosures earned an annualized 1.2% on average investment, although such operations brought a nominal $274,000 loss under full accounting.

Financing: Interest on $146 million short-term debt is still being paid at the prime rate plus compensating balances and the trust has not sought lower rates. Another $145 million longer-term debt is out, including $25 million of 8½% subordinated debentures and $30 million 6½% convertibles. Some of this debt can be repaid from mortgage proceeds from refinancing foreclosures when they have been restored to profitability. Book value of $9.39/sh. may be eroded a bit by this refusal to seek interest concessions; the approach brought a $3.57/sh. loss in fiscal 1975 after a $2.54/sh. loss provision. But future earnings will not be tied up in unfavorable contingent interest deals and management should be able to restore properties to earning status fast enough to prevent serious further erosion. Moreover market value of operating properties on balance should exceed stated book value.

Bonds: Interest and principal do not appear in jeopardy. The 8½% subordinate notes mature in 1980 and the 6½% convertible subordinated debentures are due 1991. In addition a smaller issue of $7.3 million of 8% convertibles matures 1990. These latter issues are convertible at $23 and $15½ per share respectively, and sinking fund payments are required beginning in 1981 and 1980 respectively.

Shares: At 56% below book value the shares have excellent recovery potential. However resumption of dividends is not expected in 1976 and possibly in 1977, depending upon strength of the real estate recovery. (KDC)

SUBSCRIBERS ASK: SHOULD I SWITCH FROM UTILITY STOCKS? EARNINGS FOR EQUITY TRUSTS?

As space permits we answer questions of general interest. Some recent queries:

Q. I have several thousand shares of Central Illinois Light Co. common. Their recent quarterly shows about 90% of their earnings needed for the $1.60 dividend. Might I do better to switch to Equitable Life Mortgage or some other better quality long-term mortgage REITs to share in the real estate recovery?

A. Central Illinois Light is quoted at 17-7/8 where the $1.60 dividend yields about 8.9%. The price is very near its 1975-6 high, indicating investors must be taking a favorable view of prospects. However, even though the current dividend is covered only 1.1 times by earnings, you would not improve that coverage by switching into a REIT because REITs are required to pay 90% of earnings as dividends to maintain their special conduit income tax treatment. This means that a 10% margin for dividends is the best you can expect from a mortgage REIT. Equitable Life aims to distribute 100% of earnings, in fact. This forced discharge of current earnings accounts for the wide variation in quarterly REIT dividends that can occur. Additionally, mortgage REIT earnings are inherently less stable than utility earnings.

Q. Only recently I discovered that you substitute cash flow for earnings in reporting operating results of certain equity ownership trusts, this fact being marked by "#" in the monthly Comparative Trust Statistics. This seems an obscure, if not ambiguous, way of stating an important fact. A trust could well be losing money at a substantial rate, when the figures reported by you would show it to have substantial earnings, unless interpreted otherwise.

A. Both earnings (EPS) and net cash flow (CFS) per share as calculated by Audit Investment Research are reported in two places: RELATIVE APPEAL RANKINGS and the quarterly PERFORMANCE RECORDS (e.g., the Jan. 16 issue). We've expanded and sharpened the description of these two important measures of results in the discussion "HOW TO USE COMPARATIVE TRUST STATISTICS" (p.6, Jan. 30). Since cash flow is the evaluatory yardstick in real estate transactions, in contrast to the industrial world, we give it paramount display in our stat tables.

Q. I own many REIT warrants as well as REIT shares. You list information on 37 REIT warrants in the Jan. 30 issue while last year (April 25) you listed over twice as many warrants. With the market moving up, more information on REIT warrants would be helpful. (Several subscribers have asked this general question.)

A. We trimmed the warrant list last year to make more room for facts on straight bonds, and eliminated many warrants whose prices had fallen to pennies and where we had extreme difficulty in determining validity of quotations. The market has indeed rebounded but there's no need to get excited about rising quotes if they do not represent realistic market prices. Specific warrants about which you inquired: Atlanta National RE, Aug. 1976 warrants extended to Aug. 1977, after which unexpired warrants will be convertible into 1/100 of a share; Denver REIA warrants extended from May 1976 to May 1977; Nationwide RE warrants extended Jan. 1976 to Jan. 1981; Sutro Mtg.wts. from April 1976 to April 1977; Citizens & Southern Realty wts. from Oct. 1975 to Oct. 1976.

Q. You have omitted Mortgage Trust of America Nov. 1977 warrants. I own a train load of these along with common stock. If there is a reason why they are not listed now, I would like to know. What is your idea of MT common?

A. Mortgage Trust's warrants still sell for pennies, 3¢ bid, 10¢ asked even with the market recovery, and hence are not considered seriously by the market. The shares sell so far below the warrant's exercise price of $19, the warrant's value is too remote for rational investment consideration. We will be appraising the shares for recovery in a near-term issue of REALTY TRUST REVIEW.